Global Tax Network

United Kingdom Overview
2019-20 Individual Income and Social Taxes

Gaining an understanding of the tax system in a new country is a critical step in addressing risks and reducing costs for companies with mobile employees. This overview summarizes key individual income and social tax compliance and tax planning considerations for companies sending employees to work in the UK.

Individual income tax overview

An individual's UK income tax liability is determined by two important factors--residency status and domicile (see Residency below). In general, residents who are domiciled are subject to UK tax on their worldwide income at rates up to 45% (46% for Scotland, 30% for Wales), including offshore income and capital gains. A non-domiciled resident can have offshore income and gains taxed on either a worldwide (i.e., "arising") or remittance (i.e., used in or brought into the UK) basis.

Non-domiciled residents with overseas income and gains in excess of GBP2,000 must claim the remittance basis or be subject to taxation on an arising basis. Beginning after year seven, non-domiciled residents may be subject to a Remittance Basis Charge (RBC) to continue the remittance basis of taxation. Fees for the RBC range from GBP30,000 to GBP60,000 and the taxpayer loses their UK personal allowance (GBP12,500 for 2019-20, phased-out starting at GBP100,000) and annual capital gains exemption amount (GBP12,000 for 2019-20). Careful planning is required to select the appropriate filing position.

Non-residents are generally only subject to UK tax on UK source income, but may not be eligible for any UK personal allowances.

Residency

Domicile is generally a person's permanent homeland, but an individual can obtain a deemed UK domicile if they have been a UK resident for 15 out of 20 tax years preceding the current year.

There are three tests to determine tax residency: "automatic non-residency," "automatic residency," and "UK ties." The "UK ties" test applies if the "automatic" tests are not conclusive. This test considers the taxpayer's connecting factors (e.g., factors that "connect" a taxpayer to the UK, such as UK work, accommodation, family residency position, and prior UK presence and tax residency) and days of presence during the tax year to determine the residency position.

If an individual is present in the UK for 183 or more days in a tax year, they will always be considered a tax resident. Depending on the number of connecting factors, individuals arriving for the first time could become a resident with as few as 46 days of presence. Income tax treaties should be considered for cases of dual-residency.

Tax filings

Tax Year: April 6 to April 5.
Due Date: January 31 following the tax year.
Joint/Separate Returns: Spouses must file separate tax returns.
Tax Payments: "Pay-As-You-Earn" withholding system applies for wages or salaries.

Planning ideas and common tax issues

1. Certain allowances and reimbursements may be fully or partially excluded from taxable income (e.g., moving expense reimbursements to GBP8,000, home leave trips).
2. Overseas investment income and gains can potentially be exempt from UK tax if the income is not remitted to the UK (if eligible to claim the remittance basis of taxation).
3. Overseas Workday Relief may apply for certain non-UK domiciled employees to provide exemption from UK tax on non-UK employment income that is not remitted to the UK. This relief is available for the year of arrival and the subsequent two tax years.
4. Reimbursement of traveling, housing, and subsistence expenses may be deductible for employees who are temporarily away from home for assignments of up to 24 months.

Income tax treaties

The UK has income tax treaties with many countries including the US. Business travelers going to the UK may be exempt from UK income tax if certain conditions are met (i.e., related compensation expense is not deducted by the employer in the UK and the employee does not exceed a defined physical presence threshold).

Social taxes

National Insurance (NI) contributions are payable by the employee (12% on weekly earnings between GBP166 and GBP962; 2% after) and employer (13.8% on weekly earnings over GBP166, without limit).

The UK has social security agreements with many countries, including the US. These agreements may exempt or partially exempt salary from UK social taxes (i.e., NI). An exemption from NI may be possible during first 52 weeks of an assignment if an agreement is not available.

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GTN specializes in mobility tax services. To learn how we can help you better understand these rules, or if you have additional questions, please contact us at info@gtn.com or +1.888.486.2695.

This overview is based upon tax law in effect for the UK tax year ending April 5, 2020. The information provided is for general guidance only and is subject to change. This information should not be utilized in lieu of obtaining professional tax and/or legal advice.